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2004 Budget Highlights

Summary

- The 2004 President's budget for the Department of Veterans Affairs (VA) provides approximately $63.6 billion for veterans' benefits and services: $30.2 billion in discretionary funding and $33.4 billion for entitlements. This budget supports a continued focus on health care needs of VA's core group of veterans – those with service-connected disabilities, the indigent, and those with special health care needs. With the budget increase in medical care, access to medical facilities for severely disabled veterans is expected to improve, along with a reduction in waiting times for all veterans. The 2004 submission for Medical Care includes policy changes to assure sufficient resources are available to continue timely, high quality health care to all enrolled veterans and to support the focus on core mission veterans. Some of these significant new initiatives are: 1) continuation of stopping enrollment of new priority 8 veterans; 2) assess an annual enrollment fee of $250 for nonservice-connected Priority 7 veterans and all Priority 8 veterans; 3) increase veteran's co-payments for outpatient primary care from $15 to $20 and pharmacy co-payments from $7 to $15 for veterans who have a greater ability to absorb these co-payments – Priority 7 and 8 veterans; 4) reduce the pharmacy co-payment burden for Priority 2-5 veterans that have less ability to incur these costs by raising the income threshold from the Pensions level of $9,690 to the aid and attendance level of $16,169; and 5) begin design with the Department of Health and Human Services to determine how to give Priority 8 veterans aged 65 or older who cannot enroll in VA's health system access to a new "VA+Choice Medicare" plan. The request for discretionary programs provides $3.2 billion (with collections) or 11.9 percent, over last year's funding level.

- This budget also includes $225 million in new construction funding for VA's nationwide infrastructure initiative (CARES) to ensure that VA can put services where veterans live; $264.9 million in discretionary funding to support VA's burial programs, including funds for the activation and operation of five new national cemeteries in 2004 as well as construction funding for phase I development at Detroit, MI and gravesite expansions at

Fort Snelling, MN and Barrancas, FL. Funding included for the Veterans Benefits Administration will sustain the progress made under the Secretary's priority of improving timeliness and accuracy of claims processing.

- The resources requested in the 2004 budget will enable VA to successfully address the three highest priorities of this Department:
    - Sharpen the focus of our heatlh care system to achieve primary care access standards that complement our quality standards;
    - Meet the timeliness foal in claims processing;
    - Ensure the burial needs of veteans are met, and maintain national cemeteries as shrines.
- The Medical Program and Summary Volumes have been updated in final to reflect the comparison of the 2004 budget request to the 2003 level enacted pursuant to Public Law 108-7.

Highlights by Major Component

- **Medical Care Business Line**. The 2004 President's budget includes the Medical Care Business Line with total budgetary resources of $27.5 billion, including $2.1 billion in collections, an increase of 8.1 percent in budgetary authority over the 2003 estimate. VA is requesting $25.4 billion for the direct Medical Care Business Line appropriation, an increase of $1.5 billion, 6.4 percent, in direct appropriation over the 2003 estimate to provide medical care for 4.8 million unique patients. The request reflects a comprehensive set of legislative, regulatory, and management proposals that will refocus the VA health care system to better meet the needs of our highest priority core veterans - those with service-connected conditions, those with lower incomes, and veterans with special health care needs.
- VA has experienced unprecedented growth in the medical system workload over the past few years. To address the rapid growth in the number of health care users and ensure that VA continues to provide timely, high-quality health care to our core population, the budget request includes proposals focused primarily on nonservice-connected veterans with comparatively higher incomes. These proposals will limit enrollment; assess an annual enrollment fee; change the veteran's share of outpatient and pharmacy co-payments; increase the threshold for pharmacy co-payments; require reimbursement for services provided to health maintenance organization and preferred provider organization members; and change the long-term care services provided to

veterans. These proposals are estimated to reduce the resource demand by $1.2 billion and increase collections by $220 million.

- There is an increase of $2.4 billion to support our focus on community-based health care to the core population. These resources are required to meet the changing health care demands that reflect veterans' increasing reliance on pharmaceuticals; the aging of many World War II and Korean veterans who are in greater need of health care; and the outcome of high veteran satisfaction with VA health care delivery. This level of commitment supports VA's emphasis on providing quality health care to all veterans that have served our Nation. There is also an increase of $1.1 million required for payroll and inflation changes over the 2003 estimate to support the Medical Care Business Line.

- The budget request includes management savings of $950 million, an increase of $634 million from 2003, that will partially offset the overall cost of health care. These savings will be achieved by implementing a rigorous competitive sourcing plan; reforming the health care procurement process; increasing employee productivity; continuing to shift from inpatient care to outpatient care, a less costly alternative; and reducing requirements for employee travel, interagency motor pools, maintenance and repair services, and operating supplies.

- The budget provides capital investment resources of $422.3 million necessary to ensure VA's infrastructure is adequate to support the delivery of quality health care. Within the level of funding, VA is aggressively moving forward with the Capital Asset Realignment for Enhanced Services (CARES) program; $225 million of capital funding will be invested in 2004 to implement the recommendations of individual studies. Through the CARES strategic planning process, VA will assess veterans' health care needs across the country, identify delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets to support the selected option.

- VA's cooperative efforts with DoD continue to improve the health care delivery services of both agencies in support of the 2002 President's Management Agenda and the Congressional mandate in the 2003 National Defense Authorization Act, Public Law 107-314. Over the past year, the Departments have undertaken unprecedented efforts to improve cooperation and sharing in a variety of areas through a reinvigorated VA and DoD Health Executive Council (HEC). To expand the scope of interdepartmental cooperation, two new councils have been created. The VA and DoD Benefits Executive Council (BEC) is exploring improved transfer and access to military personnel records and a pilot for a joint physical examination to improve the claims process for military personnel. The VA and DoD Joint Executive

Council (JEC) provides overarching policy direction on all collaborative initiatives between VA and DoD, sets strategic vision and priorities for the HEC and BEC, and serves as a forum for senior leader oversight for coordination of initiatives. To address some of the remaining challenges, the Departments have identified numerous high-priority items for improved coordination such as the joint strategic mission and planning process, computerized patient medical records, joint separation physicals and compensation and pension examinations, and a joint consolidated mail out pharmacy pilot.

- **Veterans Benefits Administration (VBA) Veterans Benefits Business Lines:** The budget request for all of VBA's business lines provides for $33.695 billion in mandatory spending including legislative proposals totalling $122.9 million in net savings and $355.2 million in additional funding for the anticipated cost-of-living adjustment in 2004. In discretionary spending, VBA's budget request provides $1.218 billion and 12,720 FTE, $1.169 billion in existing legislation and a legislative proposal of $48 million to convert the Guaranteed Transitional Housing for Homeless Veterans from a mandatory program to a discretionary grant program. VBA's total discretionary funding would increase $47.2 million over 2003. This budget directs $53.7 million in total obligations for new and on-going initiatives designed to provide better customer service through improved accuracy and access for benefits to the veteran community.

- Improving the timeliness and quality of claims processing is a Presidential priority. With the discretionary funding resource level, VBA expects to achieve their key performance goals of processing rating-related claims in an average of 100 days and increasing the national accuracy rate for core rating work to 90 percent.

- The driving force that allows VBA to make this kind of progress continues to be the intiatives VBA implemented from the Claims Processing Task Force. Located at the Cleveland Regional Office, VBA's Tiger Team has been working over the last year to eliminate the backlog of claims pending over 1 year, especially for veterans 70 years of age or older. This aggressive effort of reducing the backlog and improving timeliness has also begun at the nine rating resource centers. VBA has also established specialized processing teams, such as triage, predetermination, rating, post-determination, appeals, and public contact. Other Task Force initiatives, such as changing the procedure for remands, revising the time requirement for gathering evidence, and consolidating the maintenance of Pensions processing, have allowed VBA to free up resouces to work on direct processing at the regional offices.

- VBA has moved forward on many of the Task Force's recommendations. This budget would allow us to expand on the Task Force initiatives, as well as to continue to proceed with many of our on-going initiatives, such as electronic claims processing for compensation and pensions.

- **Medical Research**. The $822.2 million appropriation request is an increase of $21 million above the enacted 2003 level. The requested level will allow continuation of research projects to improve the medical care and health of veterans.

- **Burial Business Line.** The budget requests $422 million, $157 million in mandatory burial benefits and $265 million and 1,765 FTE in discretionary funding. The discretionary funding for the operations of all burial programs is $12 million above the 2003 level. This level of funding includes funds for the activation and operation of five new national cemeteries in 2004 as well as construction funding for phase I development at Detroit, MI and gravesite expansions at Fort Snelling, MN and Barrancas, FL.

- **Management Improvements**: VA is very pleased to submit this budget using a new account structure that focuses on nine major programs – medical care, research, compensation, Pensions, education, housing, vocational rehabilitation and employment, insurance, and burial. The new budget account structure will better position us to more readily determine the full cost of each of our programs, and represents a significant step forward in our ongoing effort to more effectively link resources with results. We are also developing a realignment proposal for finance, acquisition, and capital asset functions in the Department. A major aspect of this effort centers on instituting much clearer delegations of authority and improved lines of accountability. The Secretary has established and will chair a Business Oversight Board that will review all major business policy and operations issues. This includes procurement, collections (primarily focused on medical collections), capital asset management, and revolving funds.

- **Departmental Information Technology (IT) Oversight**: The Secretary made a commitment to reform the way VA conducts its IT business, and to help VA meet this objective, we have aggressively pursued new approaches to accomplishing our IT goals. The Department has developed a One-VA enterprise strategy, embarked on a nationwide telecommunications modernization program, and laid a solid foundation for a Departmental cyber security program. In order to facilitate and enhance these efforts, it is anticipated the Secretary will approve a Department-wide intiative that will substantially centralize VA's IT functions in 2003. Once approved, resources from the IT security groups of each of the Adminsitrations and Staff Offices will be consolidated under the CIO. This realignment will serve to strengthen the IT program overall and to ensure that our efforts remain focused on building the infrastructure needed to better serve our Nation's veterans.

Performance Plan

- VA directly touches the lives of millions of veterans every day through its health care, benefits, and burial programs. The 2004 Performance Plan describes how VA will fulfill its obligations to provide high-quality service, to deliver benefits to veterans in a way that satisfies the American public's commitment to honor veterans' service, and to compensate them for their sacrifices.

- The 2004 Performance Plan presents the performance targets VA is striving to achieve as a means of moving us closer to accomplishing our strategic goals and objectives. This Plan supports the Department's objectives:
    - Provide specialized health care services;
    - Improve the timeliness and accuracy of compensation claims;
    - Focus vocational rehabilitation resources;
    - Improve the standard of living of eligible survivors of service-disabled veterans;
    - Increase awareness of benefits for new veterans;
    - Provide timely education assistance;
    - Meet community standards for home loan guaranty benefits;
    - Provide high-quality and timely health care;
    - Improve timeliness and accuracy of Pensions claims processing;
    - Maintain high level of service to insurance policy holders;
    - Ensure burial needs are met;
    - Provide symbolic expressions of remembrance;
    - Improve preparedness for response to war, terrorism, National emergencies, and natural disasters;
    - Focus VA medical research and development programs;
    - Sustain partnerships with academic community that enhance the quality of health care;
    - Enhance socio-economic well-being of veterans;
    - Maintain National cemeteries as shrines;
    - Recruit, develop, and retain a committed and diverse workforce;
    - Improve communications with veterans, employees, and stakeholders;
    - Implement a *One VA* information technology framework;
    - Apply sound business principles and ensure accountability.

- By the end of 2004, we will improve the timeliness of claims processing so we complete cases in an average of 100 days, while continuing to improve the quality of our decision-making. Waiting times for veterans to schedule primary care and specialty appointments at VA health care facilities will be reduced. Over 81 percent of veterans will have reasonable access to a burial option at a national cemetery or state veterans cemetery. The overall appearance of national cemeteries will provide a dignified and respectful setting for deceased veterans and for those who visit these national shrines.

- At VA, we will conduct our operations using sound business principles. The plan describes a number of performance enablers and management reforms, including the President's management agenda initiatives, which will allow us to achieve our goals while managing public resources with prudence.

- Each year, we evaluate performance from the previous year and set new annual performance targets that demonstrate our commitment to continuous improvement. In many instances, the performance improvements we project from one year to the next, as well as the performance advancements we actually achieve, are dramatic. In other cases, the improvement is necessarily more limited. The degree of improvement is due to a variety of factors, such as the availability of resources for each program, the timing associated with implementing initiatives and new strategies, and the priorities established by the Department. Nevertheless, we continuously strive to improve our performance in all programs every year.

VA's Key Performance Goals for 2004

Performance Measure	1999	2000	2001	2002	2003	2004	Strategic Target
Strategic Goal 1: Restore the capability of veterans with disabilities to the greatest extent possible and improve the quality of their lives and that of their families.							
Percent of veterans who were discharged from a Domiciliary Care for Homeless Veterans (DCHV) Program, or (HCHV) Community-based Contract Residential Care Program to an independent or a secured institutional living arrangement	N/A	N/A	N/A	65%	65%	**67%**	75%
National accuracy rate (core rating work)	N/A	N/A	78%	80%	88%	**90%**	96%
Compensation and pension rating-related actions - average days to process	166	173	181	223	165	**100**	90
Compensation and pension rating-related actions - Average days pending	144	138	182	174	100	**80**	78
Percent of Claimants who are Benefits Delivery at Discharge (BDD) participants	N/A	N/A	N/A	N/A	TBD	**TBD**	TBD
Average number of days to obtain service medical records	N/A	N/A	N/A	N/A	TBD	**TBD**	TBD
Vocational Rehabilitation and Employment Rehabilitation rate	53%	65%	65%	62%	65%	**67%**	70%

Performance Measure	1999	2000	2001	2002	2003	2004	Strategic Target
Strategic Goal 2: Ensure a smooth transition for veterans from active military service to civilian life.							
Percent of VA medical centers that provide electronic access to health information provided by DoD on separated service persons	N/A	N/A	N/A	0%	50%	**90%**	100%
Average days to complete original education claims	26	36	50	34	29	**27**	10
Average days to complete supplemental education claims	16	22	24	16	15	**12**	7
Foreclosure avoidance through servicing (FATS) ratio	38%	30%	40%	43%	44%	**45%**	45%
Strategic Goal 3: Honor and serve veterans in life and memorialize them in death for their sacrifices on behalf of the Nation.							
Percent of patients rating VA health care service as very good or excellent:							
Inpatient	65%	66%	64%	70%	70%	**70%**	72%
Outpatient	65%	64%	65%	71%	71%	**71%**	72%
Average waiting time for new patients seeking primary care clinic appointments (in days)	N/A	N/A	N/A	Baseline 51	45	**30**	30
Average waiting time for next available appointment in specialty clinic (in days)	N/A	N/A	N/A	Baseline	60	**30**	30
Chronic Disease Care Index II	N/A	N/A	77%	80%	78%	**79%**	82%
Prevention Index II	N/A	N/A	80%	82%	80%	**82%**	85%
Increase the aggregate of VA, state, and community nursing home and non-institutional long term care as expressed by average daily census:							
Institutional	N/A	N/A	N/A	31,636	32,429	**29,981**	TBD
Non-Institutional	N/A	N/A	N/A	24,126	28,129	**32,694**	42,600
Average days to process insurance disbursements	3.2	3.2	2.8	2.6	2.8	**2.7**	2.7
Percent of veterans served by a burial option within a reasonable distance (75 miles) of their residence	67.0%	72.6%	72.6%	73.9%	74.4%	**81.6%**	85.2%
Percent of graves in national cemeteries marked within 60 days of interment	N/A	N/A	N/A	49%	70%	**75%**	90%
Percent of respondents who rate the quality of service provided by the national cemeteries as excellent	84%	88%	92%	91%	95%	**97%**	100%
Strategic Goal 4: Contribute to the public health, emergency management, socioeconomic well-being, and history of the Nation.							
Percent of research projects devoted to the Designated Research Areas	99%	99%	99%	99%	99%	**99%**	99%
Percent of respondents who rate national cemetery appearance as excellent	79%	82%	96%	97%	98%	**98%**	100%
Enabling Goal: Deliver world-class service to veterans and their families by applying sound business principles that result in effective management of people, communications, technology, and governance.							
Ratio of collections to billings	35%	28%	31%	37%	40%	**40%**	40%
Dollar value of sharing agreements with DoD (Joint Measure with VBA) ($ in millions)	N/A	N/A	$58	$83	$100	**$100**	$100

Program Assessment Rating Tool (PART)

- As one component of the President's initiative to better integrate budget and performance, the Administration is using a new analytical tool to help evaluate the effectiveness of Federal programs. Designed to provide a consistent approach to rating programs across the Federal government, the Program Assessment Rating Tool (PART) was used to assess about 20 percent of the programs during the development of the 2004 budget. Programs are evaluated in four areas—program purpose and design; strategic planning; program management; and program results.

- The PART has been used to assess three VA programs—medical care; compensation; and burial. For both medical care and compensation, the overall PART assessment was "results not demonstrated," while the burial program received a rating of "moderately effective." The Department's 2004 Performance Plan presents more detailed information on the PART assessments for these three programs. This discussion is included in the section of the plan that addresses the budget and performance integration component of the President's Management Agenda.

Budget Account Restructuring

- VA is submitting its 2004 budget using a new account structure that focuses on nine major programs. They are medical care, medical research and support, compensation, Pensions, education, housing, vocational rehabilitation and employment, insurance, and burial.

- As VA implements this new budget account structure, we will be better positioned to:

    - more readily determine the full cost of each of our programs;
    - shift resource debates from inputs to outcomes and results;
    - make resource decisions based on programs and their results rather than the previous year's funding level;
    - improve planning, simplify systems, enhance tracking, and focus on accountability; and
    - prioritize capital investments against recurring expenditures.

- The major features of the revised budget account structure are:

    - better align the costs and funding with each respective program;
    - simplifying the structure by significantly reducing the number of accounts;

  - o requesting mandatory and discretionary funding within each program while ensuring the Department fully complies with all provisions of the Budget Enforcement Act;
  - o distributing all capital costs (including construction and information technology) among the nine major program accounts; and
  - o maintaining some non-appropriated accounts (revolving and trust funds) as separate budget accounts to meet government-wide requirements
  - o maintaining the ability to account for different programs or activities.

- During the execution of the 2004 budget, VA will coordinate use of the new budget account structure with the existing FMS accounting system. As the Department migrates to the new Core Financial and Logistics System (coreFLS) (which will replace FMS and 20 other legacy systems), the new budget account structure will be utilized. Operational testing of coreFLS is expected to occur at the beginning of 2004. Full deployment of coreFLS is anticipated by March 2006.

- The implementation of this new account structure is the culmination of a multi-year project. VA and OMB jointly developed and implemented this new set of budget accounts, and we will continue to work closely together on a variety of budget formulation and budget execution activities related to this project. VA officials conducted numerous briefings and meetings with our appropriations and authorizing committees of Congress prior to submitting the budget request under this new account structure. In order to ensure the transition to the new account structure occurs as smoothly as possible, we will continue to coordinate our efforts with the appropriate Congressional committees.

- To facilitate the transition, the crosswalk tables indicating how accounts and funding under the previous budget account structure align under the proposed structure are included in all volumes including the summary volume. Information is presented for fiscal years 2002-2004. Funding totals provided under the new account structure for 2002 and 2003 represent estimated breakouts under the new format, these totals were derived from fiscal year 2002 actuals and the 2003 President's budget request under the previous account structure.

Summary by Programs

Medical Programs

- The 2004 President's budget includes the Medical Care Business Line with total budgetary resources of $27.5 billion, including $2.1 billion in collections, an increase of 8.1 percent in budgetary authority over the 2003 estimate. VA is requesting $25.4 billion for the direct Medical Care Business Line appropriation, an increase of $1.5 billion, 6.4 percent, in direct appropriation over the 2003 estimate to provide medical care for 4.8 million unique patients.

- VA has experienced unprecedented growth in the medical system workload over the past few years. To address the rapid growth in the number of health care users and ensure that VA continues to provide timely, high-quality health care to our core population, the budget request includes proposals focused primarily on nonservice-connected veterans with comparatively higher incomes.

- Although the overall veteran population will continue to decline over the next 10 years, the increase in the older age groups is increasing the demand for health care (e.g., the age group 85 and over more than doubles from 2000 to 2012). The history of VA medical service provides insight into whom we treat and why we must propose a significant policy shift. The modern VA health care system began during World War I with establishment of hospitals to treat and rehabilitate veterans with service-connected disabilities. A second role was added in 1924 with the addition of hospital care for lower-income veterans. Higher-income veterans were added on a resource-available basis in 1986 (with the provision that these veterans pay a portion of their care) and, at that time, comprised about 2 percent of veteran patients. In 2002, these veterans represented 24 percent of VA's patients.

- In more recent years, the combined effect of several factors has resulted in this large increase in the demand for VA health care services. First, the Veterans Health Care Eligibility Reform Act of 1996 and the Veterans Millennium Health Care Act of 1999 opened the door to comprehensive health care services to all veterans, many of whom were previously not eligible for care. Second, the national reputation and public perception of VA as a leader in the delivery of quality health care services has steadily risen, due in part to widespread acknowledgement of our major advances in patient safety. Third, access to health care has greatly improved with the opening of hundreds of community-based outpatient clinics. Fourth, our patient population is growing older and this has led to an increase in veterans' need for health care services. Fifth, VA has very favorable pharmacy benefits compared to other health care providers, and this has attracted many veterans to our system. And finally, public disenchantment with health maintenance organizations, along with their economic failure, has caused many patients to seek out established and traditional sources of health care such as VA.

- As more and more non-service connected, higher income veterans choose to receive health care in the VA medical facilities, VA faces the challenge of continuing to provide quality health care for its core population, especially those with disabilities that are the result of military service. VA's request is comprised of four major resource initiatives to accommodate its medical workload growth and ensure quality of care to our veterans.

- First, the request reflects a comprehensive set of legislative and regulatory proposals that will refocus the VA health care system to better meet the needs of our highest priority core veterans - those with service-connected conditions, those with lower incomes, and veterans with special health care needs. There are several major components to these proposals. First, continue the policy of stopping enrollment of new Priority 8 veterans. Second, establish an annual enrollment fee for nonservice-connected Priority 7 veterans and all Priority 8 veterans. Third, increase co-payments for outpatient care and pharmacy benefits for Priority 7 and 8 veterans. Fourth, focus institutional long-term care to veterans with service-connected conditions of 70 percent or greater and to veterans who require transitional, post-acute care. Fifth, eliminate the pharmacy co-payment burden for Priority 2-5 veterans by raising the income threshold from the pension level of $9,690 to the aid and attendance level of $16,169. Sixth, establish VA as a network provider or preferred provider for members of Health Maintenance Organizations and Preferred Provider Organizations that would require these organizations to reimburse VA for health care provided to their members. The legislative proposals required to implement these policies are included in the general provisions of the appropriations request. These proposals are estimated to reduce medical funding needs by $1.2 billion and increase collections by $220 million.

- Second, VA is requesting $2.4 billion to support our focus on community-based health care to the core population. These resources are required to meet the changing health care demands that reflect veterans' increasing reliance on pharmaceuticals; the aging of many World War II and Korean veterans who are in greater need of health care; and the outcome of high veteran satisfaction with VA health care delivery. This level of commitment supports VA's emphasis on providing quality health care to all veterans that have served our Nation. There is an increase of $1.1 billion required for payroll and inflation changes over the 2003 estimate to support the Medical Care Business Line, which is included in the $2.4 billion increase.

- Third, the budget request includes management savings of $950 million, an increase of $634 million over 2003, that will partially offset the overall cost of health care. These savings will be achieved by implementing a rigorous competitive sourcing plan; reforming the health care procurement process; increasing employee productivity; continuing to shift from inpatient care to outpatient care, a less costly alternative; and reducing requirements for employee travel, interagency motor pools, maintenance and repair services, and operating supplies.

- Fourth, the budget provides capital investment resources of $422.3 million necessary to ensure VA's infrastructure is adequate to support the delivery of quality health care. Within the level of funding, VA is aggressively moving forward with the the Capital Asset Realignment for Enhanced Services (CARES) program; $225 million of capital funding will be invested in 2004 to implement the recommendations of individual studies. VA's medical centers are no longer as geographically accessible as in the past due to the shift from inpatient to outpatient services, new technology and treatment modalities, and the shifting of the veteran population from the Northeast to the South and Southwest. Through the CARES strategic planning process, VA will assess veterans' health care needs across the country, identify delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets to support the selected option. CARES will generate savings from operational right sizing that will be reinvested into direct health care service enhancements.

- VA's cooperative efforts with DoD continue to improve the health care delivery services of both agencies in support of the 2002 President's Management Agenda and the Congressional mandate in the 2003 National Defense Authorization Act, Public Law 107-314. Over the past year, the Departments have undertaken unprecedented efforts to improve cooperation and sharing in a variety of areas through a reinvigorated VA and DoD Health Executive Council (HEC). To expand the scope of interdepartmental cooperation, two new councils have been created, modeled on the successful HEC, to facilitate and monitor collaboration activities between the two departments. The VA and DoD Benefits Executive Council (BEC) is exploring improved transfer and access to military personnel records and a pilot for a joint physical examination to improve the claims process for military personnel. The VA and DoD Joint Executive Council (JEC), co-chaired by the VA Deputy Secretary and the DoD Under Secretary for Personnel and Readiness, provides overarching policy direction on all collaborative initiatives between VA and DoD, sets strategic vision and priorities for the HEC and BEC, and serves as a forum for senior leader oversight of coordination initiatives. To address some of the remaining challenges, the

Departments have identified numerous high-priority items for improved coordination such as the joint strategic mission and planning process, computerized patient medical records, joint separation physicals and compensation and pension examinations, and joint consolidated mail out pharmacy pilot.

- For the Medical and Prosthetic Research Business Line, a total of $822.2 million and 6,528 FTE will provide 54 percent of the $1.5 billion total research funding and support over 2,770 high-priority research projects focused in Designated Research Areas (DRAs). The other funding support comes other federal and private medical research organizations such as the Department of Defense and National Institute of Health. The $822.2 million appropriation request is an increase of $21 million, or 2.6 percent, above the 2003 level. This level of funding will allow us to maintain research centers in the areas of Gulf War illnesses, diabetes, heart disease, chronic viral diseases (e.g., HIV/AIDS), Parkinson's disease, spinal cord injury, prostate cancer, depression, environmental hazards, and women's issues, as well as rehabilitation and Health Services Research and Development (HSR&D) field programs. VA will continue to seek to increase non-appropriated research funding from the private and public sectors.

Benefits Programs

- The Administration proposes to provide a cost-of-living (COLA), based on the change in the Consumer Price Index, to all compensation beneficiaries, including dependency and indemnity compensation (DIC) for spouses and children. It is currently estimated at 2.0 percent. This is the same as the COLA that will be provided, under current law, to veterans Pensions and Social Security recipients. The increase would be effective December 1, 2003, and would cost an estimated $355.2 million during 2004. Funding for this COLA is reflected in the Compensation obligations in the 2004 budget.

The Administration has proposed the following legislation:

- **Reverse Allen v Prinicipi case providing compensation for drug and alcohol abuse related disabilities –** Legislation is proposed to restore the original interpretation of 38 U.S.C. section 1110 prohibiting the granting of service-connected disability arising from alcohol or drug-abuse. Enactment of this provision is estimated to save $127.4 million in 2004.

- **Payment of full compensation to New Philippine Scouts and DIC Survivors of Filipino veterans –** Legislation is proposed to provide payment at the full rate of authorized benefits for World War II veterans of the New Philippine Scouts and for survivors of Filipino veterans who reside in the United States.

Enactment of this proposal will result in additional costs of $2.9 million in 2004.

- **Extend authorization to maintain and operate of the Regional Benefits Office in Manila, Philppines** - Legislation is proposed to authorize the regional benefits office in Manila, Philippines for an additional five years. Under current law, the authority to maintain and operate this facility expires on December 31, 2003. VA administers programs that provide compensation, Pensionss, education, and burial benefits to veterans living in the Philippines.

- **Eliminate the 45-day rule for death Pensions –** Legislation is proposed to restore language to 38 U.S.C. 5110(d) making death Pensions effective the first day of the month in which the death occurred if the claim is received within one year, thus eliminating the current 45-day rule for death Pensions. This proposal is anticipated to increase Pensions costs $649 thousand in 2004 and $12.8 million over 10 years.

- **Amend the law to extend the time for using education benefits for members of the National Guard –** This legislation provides the same extension for using education benefits for members of the National Guard activated after September 11, 2001, who qualify for chapter 35, regardless of whether they were called to active duty under title 10 or title 32 of the U.S.C. The estimated cost of this proposal is $151 thousand in 2004 and $5 million over 10 years.

- **Revision to Montgomery G.I. Bill to provide for on-the-job training in self-employment –** The Administration will transmit legislation to modify the Montgomery G.I. Bill to enable veterans to be reimbursed for certain self-employment training programs. The estimated cost of this proposal is $357 thousand in beginning in 2005 and $3.9 million over 10 years.

- **Extend Education Advisory Committee** - Legislation is required to extend the Education Advisory Committee. Under current law, authority to maintain the committee expires December 31, 2003.

- **Elimination of the Education Loan Program -** The Education Loan program has not issued a loan in over ten years. Since there is no longer a demand for the program, the Administration will transmit legislation to eliminate the program and waive all outstanding balances.

- **Convert Guaranteed Transitional Housing Loans for Homeless Veterans program from a mandatory loan program to a discretionary grant program –** Legislation is being proposed to convert this program in order to improve service to veterans. The grant program would fund up to 50 percent of a project's construction costs. Total budget authority of $48 million would be transferred from the current mandatory budget authority.

- **Retroactivity for second headstone or marker benefits –** Legislation is being proposed that would amend the effective date of eligibility for receiving the Government headstone or marker for a veteran's grave in a private cemetery regardless of whether or not it is already marked from September 11, 2001 to November 1, 1990. The estimated cost of this proposal is $5.1 million in 2004 and $13 million over 10 years.

- **Burial plot allowance payments to state veterans cemeteries –** Legislation is being proposed that would allow states to receive a burial plot allowance for all veterans buried at no cost in a state veterans cemetery. The estimated cost of this proposal is $360 thousand in 2004 and $3.6 million over 10 years.

VBA Administrative Expenses

- This 2004 Business Plan will move the agency toward achieving improved service delivery in many areas while mitigating the effects of increased workload from recently enacted legislation and regulations affecting the Compensation, Pensions, and Education business lines. In order that we might better meet the needs of our customers and stakeholders, our request includes $53.7 million in obligations for new and ongoing initiatives that target performance improvements in such areas as claims processing timeliness and accuracy, and customer satisfaction.

- VBA continues building the foundation for a sound future. This foundation is built on investments in: (1) Benefit delivery; (2) Human resources; (3) Performance measurement; (4) Balanced scorecard; (5) Data Integrity; (6) Infrastructure improvements; and (7) Financial management.

- VBA has made substantial improvements to the Compensation and Pensions business lines. Over the last four years, VA has made substantial progress in executing their strategy to restore a professional approach to work by transforming a production line process into a team-based case managed organization. As a result of these and many other initiatives, notably the additional Veterans Service Representatives (VSR) and Rating Veterans Service Representatives (RVSR) positions, we continue to improve the timeliness and quality of claims processing. With the discretionary funding resource level, VBA expects to achieve their key performance goals of processing rating-related claims in an average of 100 days and increasing the national accuracy rate for core rating work to 90 percent.

- Efforts to improve service to veterans include decreasing blocked call rates in all areas of veterans' benefits. Improved access through the Internet has afforded new communication tools to both veterans and VBA, such as on-line application forms, Insurance self-service, and real estate advertising. Training initiatives, including Training and Performance Support Systems (TPSS) and computer-based training, have provided better learning tools for employees. Financial system and information technology enhancements, Pensions Consolidation, and C&P Evaluation Redesign (CAPER) will further improve business processes.

Compensation Business Line and Pensions Business Line

In 2004, the following initiatives will be requested in the Compensation and Pensions business lines:

- Data Centric Benefits Integration (DCBI) Virtual VA – Funding in the amount of $6.7 million and 9 FTE is requested for this initiative ($5.7 million and 7 FTE for Compensation and $992 thousand and 2 FTE for Pensions). VBA is exploring the means of improving business processes. The Virtual VA Project replaces the current paper based claims folder with electronic images and data that can be accessed and transferred electronically through a web-based solution. It will provide a long-term solution to improving the quality of claims processing for veterans and their dependents through enhanced file management, a reduced dependency on paper, and increase workload management across the business enterprise. This solution is based on an architecture that will support both the compensation and Pensions programs.

- Training and Performance Support Systems (TPSS) – This multi-year initiative requires $2.6 million ($2.1 million for Compensation and $520 thousand for Pensionss) in 2004 to continue the implementation of five comprehensive training and performance support systems for the core service delivery positions of the reengineered C&P environment. The five core positions are: Basic Rating Specialist (RVSR); veterans service representative (VSR); Journey Level Rating Specialists to include Decision Review Officers; Field Examiners, and medical for RVSRs.

- CAPER (C&P Evaluation Redesign) – The return rate for inadequate exams adds a significant amount of time to the claims process. The entire C&P claims process needs to be reevaluated. DoD and other agencies have begun to create electornic databases that contain the evidence used for our process. VA needs to look to create electronic interfaces to expedite the collection of this needed information. This initiative will involve the analysis and development of a more consistent exam request process. Additionally, CAPER will ensure a system that allows an examiner's findings to be consistent with the rating schedule. VBA is requesting $3.8 million and 6 FTE for CAPER ($3.1 million and 5 FTE for Compensation and $764 thousand and 1 FTE for Pensions).

- Benefit Payment Replacement System (VETSNET Migration) – VBA has been pursuing an incremental strategy to complete the development of the C&P Payment system. The strategy provides for a sequential application effort, specifically, the incremental development and integration of functional modules or components. This budget includes $9.2 million for this effort in 2004 ($7.8 million for Compensation and $1.4 million for Pensions).

Education

- The Education Expert System (TEES) - The Education program is requesting $7.4 million and 16 FTE for TEES, which is the continued development of the Electronic Data Interchange and Electronic Funds Transfer (EDI/EFT) initiative. VBA has implemented a prototype expert system, which is able to process selected enrollment information for the Montgomery GI Bill Active Duty claimants whose data are received electronically from their education institution. This initiative will expand on the prototype to include the development of a comprehensive rules-based system to automate the adjudication of claims and the development of a new application to receive enrollment certifications from schools.

- Data Centric Benefits Integration Thin Client – VA intends to implement a One VA information technology framework that supports the integration of information across business lines. This initiative consolidates four separate Imaging Management System (TIMS) databases into one for more consistent, uniform and efficient processing and operational management. A single TIMS database provides improved customer service by facilitating e-government initiatives that enhance beneficiary access to VA education data. With this initiative, the time to process original claims will be reduced by two days, and supplemental claims by one day. Funding in the amount of $2.960 million and 5 FTE.

Vocational Rehabilitation and Employment

- The Vocational Rehabilitation and Employment (VR&E) program has made significant improvement in the placement of disabled veterans in suitable employment. VR&E has implemented an Employment Specialist position that has assisted in redirecting the program's emphasis to employment. VR&E has undertaken a study to try to determine the risk factors of why a significant percentage of program participants eventually drop out of the program.

However, some functions will continue to be performed manually until Phase II of Corporate WINRS is fully automated with all existing and projected new and updated IT systems. VR&E is developing a relationship with DoD to provide information on how to convert/utilize education and training from military experience in the civilian workforce. Through more effective networking and partnership, VR&E will ehance its ability to provide veterans with program information and services to help them achieve their goals.

Housing

- VA's home loan guaranty program has a significant impact on the housing economy of the United States. There are currently 3 million active loans. Veterans are able to purchase homes with little or no down payment and with terms not generally available to non-veterans. This benefit stimulates home buying, which spurs economic activity for builders, construction workers, realtors, appraisers, and the real estate finance industry. Over the last several years, housing field operations have been restructured, moving supplemental servicing from 45 ROs to 9 regional loan centers. This concentration of staff has provided greater flexibility to manage loan defaults. Additionally, more lenders have been approved to participate in the Servicer Loss Mitigation Program (SLMP). In 2002, Housing's performance goal, "Foreclosure Avoidance Through Servicing (FATS)" ratio was exceeded, achieving a 43 percent FATS ratio, substantially better than the planned level of 39 percent.

- In 2004, it is estimated that VA will guarantee 270,000 loans for a total amount of guaranteed loans of $35.2 billion. The budget requests 1,446 FTE to support the Housing business line in 2004, 73 fewer FTE than in 2003, and $156.8 million including minor construction under the new account restructuring format. This budget proposes legislation to convert the Guaranteed Transitional Housing Loans for Homeless Veterans program from a mandatory loan program to a discretionary grant program. The grant program would fund up to 50 percent of a project's construction costs. Total budget authority of $48 million would be transferred from the current mandatory budget authority.

Insurance

- VBA's Insurance Center provides veterans and their dependents a full range of insurance services for policies administered by VA. The insurance program is expected to complete the Paperless Processing initiative and the Skills, Knowledge and Insurance Practices and Procedures Imbedded in System (SKIPPES) initatives in 2003.

- Administrative expenses to support the insurance program are made available from excess earnings from the National Service Life Insurance, United States Government Life Insurance, Veterans Reopened Insurance, Servicemembers Group Life Insurance, and Veterans Special Life Insurance programs.

VBA-Wide Initiatives

VBA also requests funds for initiatives that affect all business lines. Included in the budget are the following initiatives:

1) One VA Telephone Access -- $13.2 million ($7.9 million for Compensation; $1.977 million for Pensions; $771 thousand for Education; $1.056 million for VR&E; and $1.487 million for Housing). Under this project, a Virtual Information Center (VIC) forms a single telecommunications network among several regional offices. VIC technology also allows VBA to answer calls at any place and any time without complex call routing reconfigurations and with fewer FTE.

2) Security & Infrastructure Protection (SIPO) – $3 million ($2.6 million for Compensation; $150 thousand for Pensions; $58 thousand for Education; $80 thousand for VR&E; and $113 thousand). This initiative addresses three separate aspects of the VBA security program: (1) increased oversight at the SIPO office located at Central Office; (2) Technical Security at the Hines Information Technology Center; (3) the Philadelphia Information Technology Center; (4) certification and accreditation of VBA's IT systems; and (5) enhancements to the IT infrastructure. This initiative will fund contractor support.

3) Procedures Manual Re-write -- $1.5 million ($500 thousand for Education; $500 thousand for Housing; and $500 thousand for VR&E). VBA manuals are not written and organized in a manner that is easy to understand. This initiative will improve the accessabililty and readability of the procedural manuals used in decision making for the Education, Loan Guaranty, and Vocational Rehabilitation and Employment programs.

4) Colocation/Relocation – VBA is examing VA Regional Office collocations utilizing enhanced-use authority in a number of locations. The budget also includes funds for relocation on a short term basis until CARES solutions have been identified: Buffalo, Lousville, Las Vegas; and Phoenix. A total of $3.3 million is being requested for these projects ($1.990 million for

Compensation; $497 thousand for Pensions; $194 thousand for Education; $266 thousand for VR&E; and $374 thousand for Housing).

Burial

- The Burial Benefits account requests an appropriation of $422.2 million and 1,765 FTE for 2004, $157.3 million in mandatory funding and $264.9 million in discretionary funding. This is an increase of $10.2 million and 71 FTE over the 2003 enacted level.

- The request includes $157.3 million to provide burial benefits on behalf of eligible deceased veterans and eligible deceased dependents.

- For the operations and maintenance costs in 2004, the Burial Account is requesting $156.1 million. This represents an increase of $12.3 million over 2003 and supports 1,588 FTE in NCA and 177 FTE in VBA.

- Workloads continue to grow at existing cemeteries, and additional funding for 17 FTE, contract maintenance, supplies, and equipment is essential just to maintain existing service levels. This is NCA's highest priority.

- This budget funds the National Shrine Commitment at $10,000,000. This funding is necessary for NCA to achieve its performance goal pertaining to appearance.

- This budget requests funding and FTE for the activation and operation of five new national cemeteries in 2004. Fort Sill National Cemetery opened a small, fast-track section for interments in November 2001, and Phase I construction of the cemetery should be complete by February 2004. NCA plans to open fast-track sections for interments at another four new cemeteries planned for the Atlanta, GA; South Florida; Pittsburgh, PA; and Detroit, MI areas. NCA also requests funding to prepare for the future opening of a fast-track section of an additional national cemetery in the area of Sacramento, CA. This budget requests $4.3 million and 49 FTE to continue the preparation and activation of these new national cemeteries.

- For construction, NCA requests $76.9 million in 2004, $54.4 million in major projects and $22.4 million in minor projects. The major construction request includes funding for phase I development of a new cemetery in the Detroit, MI area, cemetery expansion and improvements at Fort Snelling, MN and Barrancas, FL; and the design funds for burial expansion and cemetery improvements at Calverton, FL, Fort Sam Houston, and Rock Island National Cemeteries.

- NCA requests $32 million to fund the grants for state veterans cemeteries in 2004. Demand for grant funding has increased as a result of the increase of the Federal share to cover 100 percent of the cost of construction and initial equipment.

Departmental Administration

Office of the Inspector General

- The 2004 request for the Office of Inspector General (OIG) contains total resources of $65.4 million. The request includes direct budget authority of $62.4 million with no more than $700 thousand for construction, and planned reimbursements of $2.9 million, which supports an estimated staffing level of 442. The request will assist the OIG in overseeing the quality of health care services rendered our veterans, identifying internal control vulnerabilities in benefit payment processes and detecting fraud through extensive review and analysis of VA databases and matching initiatives.

General Administration

- Budget authority of $283,973,000 and 2,491 FTE are requested to support the General Administration activity in 2004. Of this amount, no more than $5,405,000 is available for construction activities. Realigning the construction funding within this account is consistent with the agency's budget account restructuring effort. The budget request is $17.5 million above the 2003 enacted level of $266.5 million. The budget authority, together with $139.9 million in estimated reimbursements, an estimated net change in construction carryover of $1.2 million, and adjustments to obligations of $7.6 million will provide for total gross obligations of $432.6 million in 2004. Total FTE increases by a net 12 in 2004 from the 2003 current estimate of FTE. Highlights of the 2004 request are briefly summarized below.

- The Board of Contract Appeals (BCA) is requesting $1.6 million in budget authority and 12 FTE in total obligations for 2004. This funding level will ensure that BCA can continue to improve the timeliness of appeal decisions, increase the percentage of cases using Alternative Dispute Resolution (ADR), and promote the use of ADR throughout the Department for non-contractual matters, such as workplace disputes.

- The Board of Veterans' Appeals (BVA) is requesting $50.4 million and 448 FTE in 2004. The requested level of funding will enable VA to continue to improve timeliness of claims processing. In 2002, the Board began developing cases in lieu of remanding them to the regional offices pursuant to regulatory changes.

Although this may reduce the number of final decisions produced, it will improve timeliness of appeals processing, i.e., appeals resolution time, and better serve veterans. BVA and VBA have a joint performance indicator that is a system-wide measure of how long it takes to reach final resolution of veteran's claims. In 2004, it is projected that it will take an average of 520 days. The appeals resolution time for 2002 was 731 days.

- The Office of the General Counsel (OGC) is requesting $54.3 million in budget authority and 664 FTE to support its operations in FY 2004. One hundred thirteen (113) of the 664 FTE are supported by an additional $9.7 million in estimated reimbursements for Medical Care Collections Fund, Credit Reform Administration, and other reimbursable authorities. The reimbursements include VBA's commitment for legal services, resulting in a total obligation of $64 million. This obligation will be used to fund the annual payroll increase and associated benefits, and increased non-payroll, and will enable OGC to continue to meet the increasing demand for legal services by the Administrations within VA, while managing to keep pace with its representational responsibilities at the Court of Appeals for Veterans Claims (CAVC).

- In 2004, the Office of Management (OM), excluding the Supply Fund and Franchise Fund, is requesting $40 million in budget authority and 289 FTE to support its operations. The Supply Fund and the Franchise Fund operate as revolving funds and are presented in separate chapters within the Department's budget justification. The OM budget authority, together with $64 million in reimbursable authority, as well as $2.6 million for adjustments to expenditure will provide for an estimated total obligation authority of $106.6 million. Reimbursements fund coreFLS, medical care financial operation and program reviews, enhanced-use leases, and assistance in financial policy development and oversight.

- The 2004 request includes resources necessary to continue the current level of operations and sustain efforts on critical initiatives underway. We are continuing the coreFLS project to replace VA's existing core financial management and logistics systems—and many of the legacy stovepipe systems interfacing with them—with an integrated, commercial off-the-self (COTS) package. CoreFLS will help VA address and correct management and financial weaknesses in the areas of effective integration of financial transactions from VA systems, necessary financial support for credit reform initiatives, and improved automated analytical and reconciliation tools. In addition, the Office of Management will further its effort to inventory, analyze and monitor performance of the Department's capital assets. This function includes the creation of the Department's first capital assets portfolio, innovative strategies such as enhanced use, and the creation of a long term capital asset plan.

- The Office of Information and Technology (OI&T) is requesting $30.9 million in budget authority and 226 FTE to support its operations in 2004. The OI&T Budget authority, combined with $35.6 million in reimbursements and $3.0 million in adjustments to expenditures, will provide OI&T with $69.6 million in total obligational authority. Included in the budget authority for OI&T is a shift of 34 FTE and funding for telecommunications previously shown as reimbursable FTE. This shift in funding will provide the CIO with direct control of the resources and allow for improved coordination and management of this program.

- In addition, the OI&T request includes $10.1 million to continue the development of the *One VA* Enterprise Architecture (EA), and the integration of the EA into key Departmental processes (Capital Planning, Budgeting, and Project Management Oversight). It also will integrate the *One VA* EA into the execution of all IT projects within the Department, particularly those that either provide or utilize IT infrastructure, common enterprise services and/or enterprise data. This request also includes $26.5 million for Cyber Security's ongoing initiatives. The goal of the Office of Cyber Security is to protect VA's information technology assets nationwide. It aims to establish, maintain, and refresh a secure Department-wide information technology (IT) framework upon which VA business processes can reliably deliver world-class services to veterans.

- The Office of Human Resources and Administration (HR&A) is requesting $52.8 million in budget authority and 517 FTE in FY 2004. In addition to this budget authority, HRA's budget includes $27.7 million in reimbursements, of which reimbursements for ORM operations are the largest component at $24.7 million. Current service resources will support the current level of operations and VACO support.

- The Office of Policy & Planning (OP&P) is requesting $15.5 million and 65 FTE to support its activities in 2004. With these resources, OP&P will continue to facilitate the Department's strategic planning process, provide actuarial and analytical support to VA program offices, conduct statutorily required program evaluations, coordinate corporate management improvement activities, and support development, analysis, and review of issues affecting veterans' programs.

- The Office of Public and Intergovernmental Affairs (PIA) is requesting $10.7 million and 85 FTE for 2004. With this funding level, PIA will continue to communicate available Department benefits and programs to the Nation's veterans and their eligible dependents and survivors. The requested FTE level will allow personnel in Central Office and at various field offices to provide an array of public information and professional communications services to national and local media, State and local veterans service organizations and veterans at the grassroots level. The 2004 funding level also will enable PIA to maintain primary contact with Federal, State, and local government officials and oversee all VA programs and services to assist homeless veterans and veterans in need of social services.

- The Office of Congressional and Legislative Affairs (OCLA) is requesting 2004 resources of $4.3 million and 40 FTE. These resources will enable OCLA to maintain positive, cooperative relationships with Members of Congress and congressional committees and staff. The requested FTE level will allow OCLA to coordinate the development of the Department's annual legislative program; monitor the status of pending legislation affecting VA; provide Congress with accurate and timely responses to inquiries; serve as liaison with the General Accounting Office; track milestones and coordinate the submission for all congressionally-mandated reports; and review and facilitate all responses to congressional mail and inquiries. The Office will also continue to serve as the Department's liaison for Members of Congress and their staffs on policy and constituent casework.

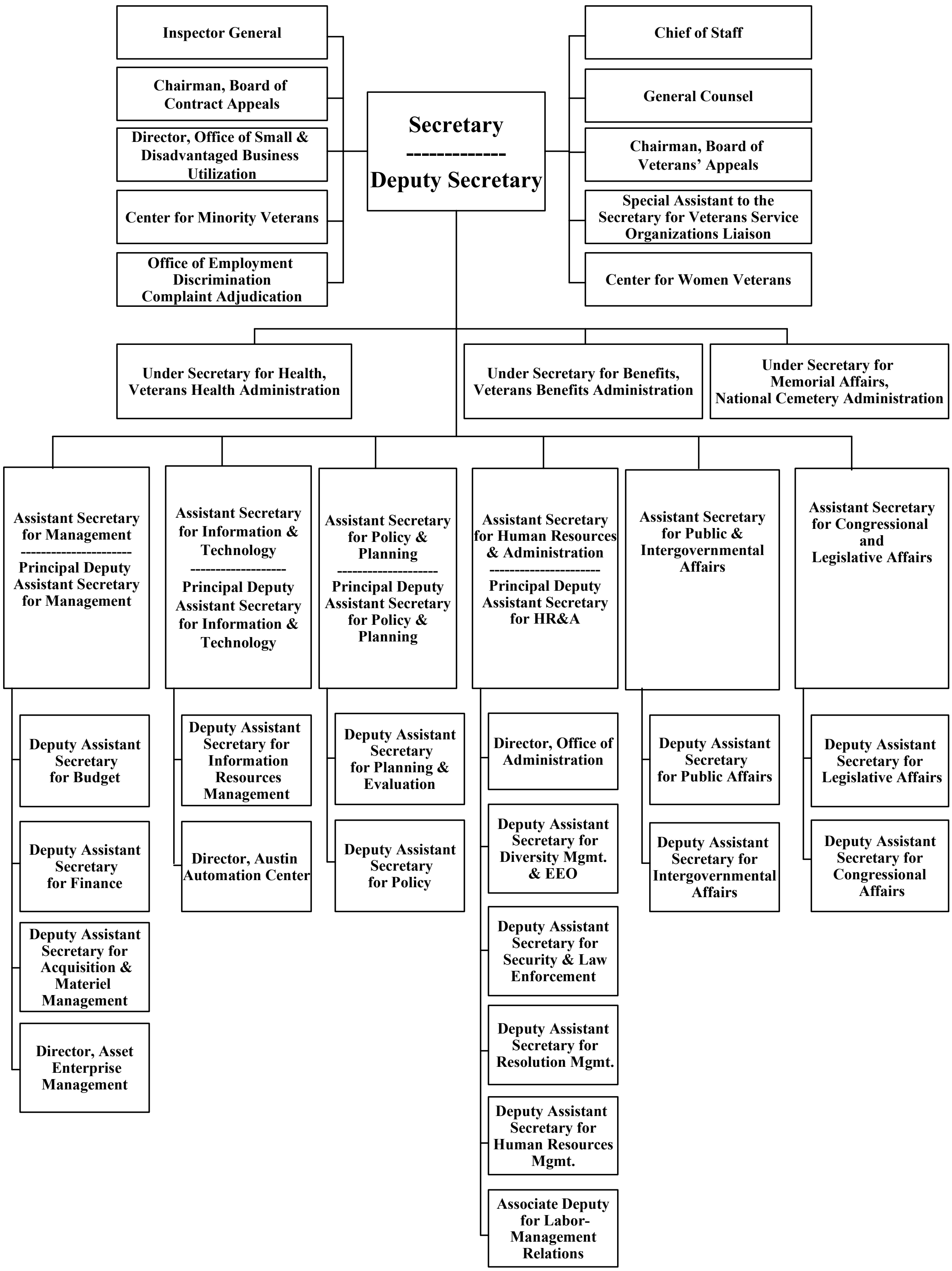
- The Office of Operations, Security and Preparedness (OS&P) is requesting obligational authority of $10.9 million and 54 FTE in 2004. OS&P is designed to enable the Department and its three Administrations to operate more effectively and safely in this new, uncertain environment. Additionally, this office will play a key role in continuity of operations in the event of an emergency situation and is formed with the specific intent of improving and increasing VA's ability to respond to any contingency (whether natural disaster or terrorist assault) with minimal disruption to ongoing services to veterans and their families. OS&P will also play the leading role in ensuring enforcement of the law and overseeing the protection of employees and veterans using VA facilities while ensuring the physical security of VA's infrastructure; and evaluating preparedness programs and developing Department-wide training programs and exercises that enhance VA's readiness.

Franchise Fund (Enterprise Centers)

- The Franchise Fund completed its sixth year of operations on September 30, 2004. The six lines of business (Enterprise Centers) are proving to be very successful. Sales have dramatically increased since our initial year of operations in 1997, i.e., from $59 million to $164 million. The Fund's financial statements for the years 1998 through 2001 were audited by a private sector CPA firm. These audits all resulted in an unqualified (clean) opinion.

- This budget requests extending the Franchise Fund pilot authorized by section 403 of P.L. 103-356 and title 1 of P.L. 104-204 until October 1, 2004.

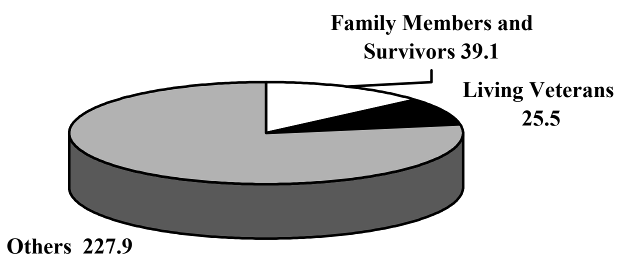
Department of Veterans Affairs



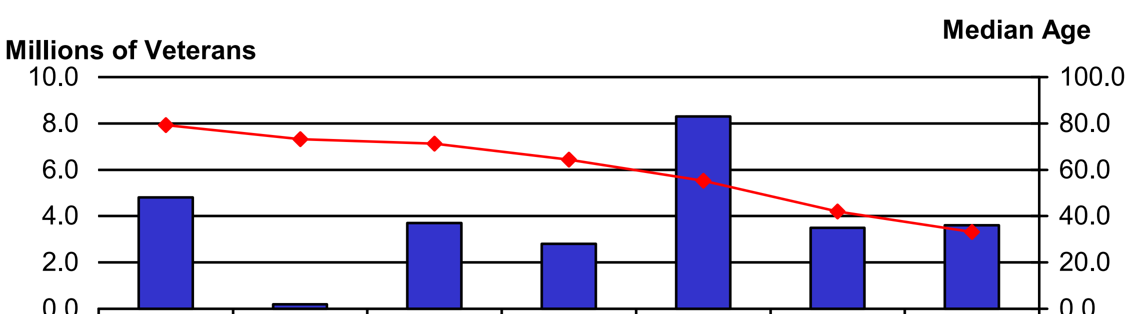
Veterans Population

On September 30, 2002, there were an estimated 25.6 million living veterans with 25.5 million of them in the U.S. and Puerto Rico. There were an estimated 39.1 million family members of the living veterans in the U.S. and Puerto Rico. There were 571,000 survivors of deceased veterans receiving VA benefits. Thus, more than 65.2 million people, or 22.2 percent of the total estimated resident population of the U.S. and Puerto Rico of 293.1 million, were recipients, or potential recipients, of veterans' benefits provided by the Federal Government.

Estimated Population (in millions) of Living Veterans, Family Members of Living Veterans and Survivors of Veterans Receiving VA Survivor Benefits, and Others, U.S. and Puerto Rico



Estimated Number and Median Age of Veterans by Period of Service



	WW II	Other Peacetime	Korean Conflict	**	Vietnam Era	***	Gulf War
Veterans *	4.8	0.2	3.7	2.8	8.3	3.5	3.6
Age	79.3	73.2	71.3	64.3	55.3	42.0	33.1

* Veterans are included in all wartime periods in which they served. Therefore, period categories do not add to total veterans' population.

** Between Korean Conflict and Vietnam Era. *** Between Vietnam Era and Gulf War Only.

Source: VetPop2001 adjusted to Census 2000, Office of the Actuary, VA.

In compliance with provisions of the Veterans' Judicial Review Act, P. L. 100-687, Section 1404.

Estimates of Combat Theatre Obligations from the National Survey of Veterans (dollars in millions)			
Appropriations	FY 2002 Obligations	Estimate of Combat Theatre Veterans *	Estimated Obligation on Combat Theatre Veterans
Employment Services			
HIRE/CETA	N/A	N/A	
EJTP/VJTP	N/A	N/A	
Compensation	$18,546	58%	$10,757
Dependent and Indemnity Compensation	3,795	N/A	
Pensions			
Veterans	2,464	51%	1,257
Survivors	700	N/A	
Inpatient Facilities	9,995	50%	4,997
Outpatient Care	11,144	49%	5,461
Miscellaneous Medical Service	1,300	N/A	
Readjustment Counseling	80	N/A	25
Veterans Insurance and Indemnities	26	50.2	13
Specially Adapted Housing	25	N/A	
Burial Benefits	134	49%	66
Educational Assistance	1,432	40%	573
Vocational Rehabilitation	486	43%	209
Survivors' and Dependents' Educational Assistance	234	N/A	
Home Loan Guaranty (Liquidating)	189	43%	81
Automobiles and Adaptive Equipment	39	N/A	

NA = Not Available from the National Survey of Veterans (NSV)
* Combat Theatre is based on the question, "Did you ever serve in a combat or war zone?" from the 2001 National Survey of Veterans (NSV).

N/A - Not available from the 2001 NSV.

Most NSV questions on program usage refer to current usage (2000 – 2001 time period) or in case of burial benefits anticipated usage. However, because education and vocational rehabilitation questions asked ever used, answers for this table for those programs were restricted to veterans discharged in the last 10 years. Home Loan Guaranty refers to veteran who used the program since leaving the military.

New Appropriation Structure

The Department of Veterans Affairs has restructured its budget request around nine major programs that more accurately aligns funding with each respective program. This effort has streamlined the VA account structure from 21 appropriations down to 11. A major feature of the revised structure is requesting both the mandatory and discretionary funding within each program while ensuring the Department fully complies with all provisions of the Budget Enforcement Act. In addition, each of the new accounts will include their portion of funding from the minor and major construction appropriations, which would be eliminated under this proposal. Besides simplifying the way funds are requested, the new structure will allow VA to more readily determine the full costs of each program and shift resource decisions from inputs to results. The new account structure is described below.

Appropriations

MEDICAL CARE BUSINESS LINE: Provides for a comprehensive, integrated health care delivery system that addresses the needs of the Nation's veterans by financing the operation, maintenance, administration, and capital investments from the following accounts that are required to address the health care needs of eligible veterans.

MEDICAL CARE: Provides for comprehensive and integrated health care system supporting health care to eligible veterans; a national academic education and training program to enhance the quality of care provided to veterans; and administrative support for capital facilities. This is an annual, multi-year, and no-year account.

NATIONAL PROGRAM ADMINISTRATION (FORMERLY MEDICAL ADMINISTRATION AND MISCELLANEOUS OPERATING EXPENSES): Provides the corporate leadership and support to VA's comprehensive and integrated health care system by a headquarters staff, including the capital facilities management and development process. Specific activities include the development and implementation of policies, plans, and broad program activities; assistance for the networks in attaining their objectives; necessary follow-up action to ensure complete accomplishment of goals; and facility management and development functions. This is an annual and multi-year account.

CONSTRUCTION, MAJOR (VHA PORTION): For constructing, altering, extending, and improving any VA facility, including planning, assessments of needs, architectural and engineering services, and site acquisition, where the estimated cost of a project is $4 million or more or where funds for a project were made available in a previous major project account.

CONSTRUCTION, MINOR (VHA PORTION): For constructing, altering, extending, and improving any VA facility, including planning, architectural and engineering services, and site acquisition, where the estimated cost of a project is less than $4 million. VA medical center projects with minor improvements component costing $500,000 or more are funded from this account.

GRANTS FOR CONSTRUCTION OF STATE EXTENDED CARE FACILITIES: Approved on August 19, 1964, and authorized as an appropriation in 1965. Grants to States to acquire or construct State nursing home and domiciliary facilities and to remodel, modify, or alter existing hospitals, nursing homes, and domiciliary facilities in State homes. A grant may not exceed 65 percent of the total cost of the project. Public Law 102-585 granted permanent authority for this program. Public Law 104-262 added Adult Day Health Care and another level of care that may be provided by State homes.

MEDICAL AND PROSTHETIC RESEARCH BUSINESS LINE: Supports research that facilitates and improves the primary function of VHA, which is to provide high-quality and cost-effective medical care to eligible veterans and contribute to the Nation's knowledge about disease and disability. This is a multi-year appropriation and no-year appropriation.

Special Funds

MEDICAL CARE COLLECTIONS FUND: Provides medical collections that are used for specified purposes to support the health care for eligible veterans. The MCCF will be comprised of the following accounts.

MEDICAL CARE COLLECTIONS FUND: Public Law 105-33, the Balanced Budget Act of 1997, established the Department of Veterans Affairs Medical Care Collections Fund (MCCF) and terminated the Medical Care Cost Recovery Fund (MCCR). It required that amounts collected or recovered after June 30, 1997, be deposited in the MCCF. The amounts collected in the fund are available only for: 1) VA medical care and services during any fiscal year; and 2) VA expenses for identifying, billing, auditing, and collecting amounts owed the government. Public Law 105-33 also extended to September 30, 2002, the following OBRA provisions: 1) authority to recover co-payments for outpatient medication and nursing home and hospital care; 2) authority for certain income verifications; and 3) authority to recover third party insurance payments from service-connected veterans for non-service-connected conditions.

HEALTH SERVICES IMPROVEMENT FUND: Public Law 106-117, the Veterans Millennium Health Care and Benefits Act, authorized the Secretary to increase the $2 medication co-payment, establish a maximum annual and monthly payment applicable to veterans with multiple outpatient prescriptions, and revise co-payments in outpatient care for "higher-income" veterans, authorizes VHA to receive reimbursement from DoD for certain military retirees using the VA system covered by TRICARE and expands VA's enhanced-use lease authority. VA increased the pharmaceutical co-pays to $7 in 2002.

LONG-TERM CARE CO-PAYMENTS (FORMERLY VETERANS EXTENDED CARE REVOLVING FUND: This account was established by Public Law 106-117, the Veterans Millennium Health Care and Benefits Act. This account receives per diems and co-payments from certain patients receiving extended care services as authorized in title 38, U.S.C., § 1701B. Amounts deposited in the account are used to provide extended care services.

COMPENSATED WORK THERAPY PROGRAM (FORMERLY SPECIAL THERAPEUTIC AND REHABILITATION ACTIVITIES FUND): This program established pursuant to the Veterans Omnibus Health Care Act of 1976, Public Law 94-581, approved October 21, 1976, provides a mechanism for furnishing rehabilitative services to certain veteran beneficiaries receiving medical care and treatment from VA. Funds to operate the various rehabilitative activities and provide therapeutic work for remuneration of patients and members in VA facilities are derived from contractual arrangements with private industry, non-profit organizations, and State and Federal entities. This is a self-sustaining activity that does not require an appropriation.

COMPENSATION AND PENSIONS LIVING EXPENSES PROGRAM (FORMERLY MEDICAL FACILITIES REVOLVING FUND): This program provides for operating expenses of VA medical facilities furnishing nursing home care to certain veterans who receive Pensions. Title 38, U.S.C., provides that a veteran with no spouse or child will receive $90 per month in Pensions beginning the third full month following the month of admission to VA furnished nursing home care. The difference between the $90 the veteran receives and the amount otherwise authorized is transferred to this fund to cover the expenses of the facility furnishing the nursing home care. Public Law 105-368, Veterans Programs Enhancement Act of 1998, has granted permanent authority for the transfer of Pensions funds in excess of $90 per month from the Compensation and Pensions account, in accordance with the provisions of title 38, U.S.C. § 5503(a)(1)(B). This authority will be retroactive as of October 1, 1997.

PARKING PROGRAM (FORMERLY PARKING REVOLVING FUND): Provides for constructing, altering, and acquiring (including site and lease acquisition) of parking spaces and structures in order to accommodate the vehicles of employees of medical facilities, vehicles used to transport veterans and eligible persons to or from such facilities for examination or treatment, and the vehicles of visitors and other individuals having business at such facilities. Revenue is derived from parking fees.

SALE OF ASSETS (FORMERLY NURSING HOME REVOLVING FUND): Provides for constructing, altering, and acquiring (including site and lease acquisition) of nursing home facilities and may be used only as provided for in Appropriations Acts. Receipts to this account shall be realized from the transfer of any interest in real property that is owned by the United States and administered by VA and that has an estimated value in excess of $50,000. Amounts realized from the transfer pursuant to title 38, § 8122(a)(2)(C) shall be administered as a revolving fund and shall be available without fiscal year limitation.

COMPENSATION BUSINESS LINE: Provides for compensation payments to service-connected disabled veterans and their survivors and provides other benefits to veterans and their survivors. The new business line includes the consolidation of five appropriations and an expenditure transfer from the Department of Defense (DoD). The six sources are: the compensation portion of the Compensation and Pensions account (mandatory), the autos and other conveyances and adaptive equipment portion of the Readjustment Benefits account (mandatory), a portion of the General Operating Expenses account (discretionary), a portion of the Major Construction (discretionary), and Minor Construction (discretionary), and the expenditure transfer from DoD for the Reinstated Entitlement Program for Survivors (REPS) (mandatory).

REINSTATED ENTITLEMENT PROGRAM FOR SURVIVORS: Restores benefits to certain surviving spouses or children of veterans who died of service-connected causes which occurred before August 13, 1981. Financing is provided in the form of offsetting collections from the Department of Defense.

PENSIONS BUSINESS LINE: Provides for Pensions payments, subject to an income standard, to war-time veterans who are permanently and totally disabled from non-service-connected causes and their survivors. The new Pensions business line includes the consolidation of four appropriations. The four appropriations are: the Pensions portion of the Compensation and Pensions account (mandatory), a portion of the General Operating Expenses account (discretionary), and a portion of the Major Construction (discretionary), and Minor Construction (discretionary).

EDUCATION BUSINESS LINE: Provides payments for education and training, for eligible veterans and dependents. Funding provided for this program consists of direct appropriations to this VA account, as well as offsetting collections received primarily from the Department of Defense. The new Education business line includes the consolidation of four appropriations and one trust fund, the Post-Vietnam Era Veterans Education Account. The four appropriations are: the educational assistance portion of the Readjustment Benefits account (mandatory), a portion of the General Operating Expenses account (discretionary), a portion of the Major Construction (discretionary), and Minor Construction (discretionary).

Revolving Funds

EDUCATION LOAN FUND: Provides education loans of up to $2,500 a school year for certain dependents who are without sufficient funds to meet their expenses. Under the Federal Credit Reform Act of 1990, this fund now receives a direct appropriation for its administrative expenses, which it reimburses directly to the General operating expenses appropriation. Subsidy budget authority is provided for costs associated with loans obligated in 1992 and beyond. The program and direct loan financing activities of this account have been shown under the "Miscellaneous Veterans Programs Loan Fund" and the "Miscellaneous Veterans Programs Loan Fund Direct Loan Financing Account", respectively, in the President's budget.

Trust Funds

POST-VIETNAM ERA VETERANS EDUCATION ACCOUNT: Funding for this account consists of voluntary contributions by eligible servicepersons and Department of Defense matching contributions on behalf of specific servicepersons. The account serves as a depository and disbursing account for the contributory-matching education program which provides educational assistance payments to participants who entered the service between January 1, 1977 and June 30, 1985, and are pursuing training under chapter 32 (38 U. S. C.). Public Law 99-576, enacted October 28, 1986, permanently closed the program to new enrollees after March 31, 1987. However, the enactment of Public Law 101-510, allows servicepersons enrolled or eligible to enroll in the program, who are involuntarily separated from the service on or after February 3, 1991, an opportunity to receive assistance under the Montgomery GI Bill (MGIB) program in lieu of Post-Vietnam Era Veterans Education Program (VEAP). Public Law 102-484 extended the same opportunity to certain servicepersons who voluntarily separated from the military on or after December 5, 1991. An opportunity to enroll in the MGIB program also was extended to Chapter 32 (and section 903) servicepersons, who were VEAP participants on October 9, 1996, under Public Law 104-275.

VOCATIONAL REHABILITATION AND EMPLOYMENT BUSINESS LINE: Provides eligible service-disabled veterans with services and assistance necessary to enable them to become employable and to obtain and maintain suitable employment to the maximum extent possible. The new Vocational Rehabilitation and Employment (VR&E) business line includes the consolidation of five appropriations. The five appropriations are: the vocational rehabilitation portion of the Readjustment Benefits account (mandatory), the Vocational Rehabilitation Loans Program account (discretionary), a portion of the General Operating Expenses account (discretionary), a portion of the Major Construction (discretionary), and Minor Construction (discretionary).

Revolving Funds

VOCATIONAL REHABILITATION REVOLVING FUND: Loans (advances) of up to $896.00 will be made in 2002 to disabled veterans eligible for vocational rehabilitation who are without sufficient funds to meet their expenses. Under the Federal Credit Reform Act of 1990, this fund now receives a direct appropriation for its administrative expenses, which it reimburses directly to the General operating expenses appropriation. Subsidy budget authority is provided for costs associated with loans obligated in 1992 and beyond. To facilitate account restructuring and consolidation, the program and direct loan financing accounts also have been shown under the "Miscellaneous Veterans Programs Loan Fund" and the "Miscellaneous Veterans Programs Loan Fund Direct Loan Financing Account", respectively, in the President's budget.

HOUSING BUSINESS LINE: Provides eligible service-disabled veterans with services and assistance necessary to enable them to become employable and to obtain and maintain suitable employment to the maximum extent possible. The new Housing business line includes the consolidation of seven appropriations. The seven appropriation (on-budget) accounts are: the Veterans Housing Benefit Program Fund Program Account (mandatory and discretionary), Native American Housing Loan Program Account (discretionary), Guaranteed Transitional Housing Loans for Homeless Veterans Program Account (mandatory and discretionary), specially adapted housing grants portion of the Readjustment Benefits account (mandatory), a portion of the General Operating Expenses account (discretionary), a portion of the Major Construction (discretionary) and Minor Construction (discretionary). The Housing business line also includes the Veterans Benefit Fund Liquidating Account (on budget) and the following (off-budget mandatory) accounts: Veterans Housing Benefit Program Fund Direct

Loan Financing Account, Veterans Housing Benefit Program Fund Guaranteed Loan Financing Account, Veterans Housing Benefit Program Fund Loan Sales Securities Account, Guaranteed Transitional Housing Direct Loan Financing Account, and Native American Housing Direct Loan Financing Account.

Revolving Funds

VETERANS HOUSING BENEFIT PROGRAM FUND: The consolidated, single housing fund called the Veterans Housing Benefit Program Fund (VHBPF) reflects all information formerly in the Loan Guaranty, Guaranty and Indemnity, and Direct Loan housing programs. Effective October 1, 1998, all appropriations and income formerly received from these accounts are deposited in this new fund. No program changes resulted as an effect of this presentation. All loans guaranteed prior to September 30, 1991, are scored in the VHBPF Liquidating Account. Under the Federal Credit Reform Act of 1990, all loans guaranteed after September 30, 1991, are financed by subsidy appropriations to the VHBPF Program Account. This account also receives an appropriation for administrative expenses. The principal objective of the loan guaranty program is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families.

GUARANTEED TRANSITIONAL HOUSING LOANS FOR HOMELESS VETERANS PROGRAM: This program was established in the Veterans Benefits Improvement Act of 1998, Public Law 105-368. The program is a pilot project designed to expand the supply of transitional housing for homeless veterans by authorizing the Secretary to guarantee loans for self-sustaining housing projects specifically designed to create long-term transitional housing for homeless veterans. VA may guarantee up to 15 loans with a maximum aggregate value of $100 million. Not more than five loans may be guaranteed in the first three years of the program. The project must enforce sobriety standards and provide a wide range of supportive services such as counseling for substance abuse and job readiness skills. Residents will be required to pay a reasonable fee. All funds authorized for this program were appropriated by the end of 2000; therefore, no appropriation language has been included in this budget. The guarantee loan financing activity of this account is shown under the "Miscellaneous Veterans Housing Programs Loans, Program, and Direct Loan Financing Account" in the President's budget.

NATIVE AMERICAN VETERANS HOUSING PROGRAM: This program was designed to test the feasibility of enabling VA to make direct home loans to Native American Veterans who live on U.S. trust lands. Annual appropriations are received for administrative expenses associated with this program. Subsidy budget authority was enacted in 1993, initially available through September 30, 1997. Authority to continue this program was extended through December 31, 2001, pursuant to Public Law 105-114, Veterans Benefits Act of 1997. The direct loan financing activity of this account is shown under the "Miscellaneous Veterans Housing Programs Loans, Program, and Direct Loan Financing Account" in the President's budget.

INSURANCE BUSINESS LINE: Provides payment for extra hazard costs to the National Service Life Insurance and United States Government Life Insurance funds, supplements the Service-Disabled Veterans Insurance Fund, and provides direct payment to policyholders. The new Insurance business line includes the consolidation of four appropriations. The four appropriations are: the Veterans Insurance and Indemnities (mandatory), a portion of the General Operating Expenses account (discretionary), a portion of the Major Construction (discretionary), and Minor Construction (discretionary). The Insurance business line administers six life insurance programs, including two trust funds, two public enterprise funds, a trust revolving fund, and Veterans Mortgage Life Insurance (VMLI), and supervises two additional programs for the benefit of servicepersons, veterans, and their beneficiaries. The Insurance appropriation is the funding mechanism for the following Government life insurance activities:

Public Enterprise Funds

SERVICE-DISABLED VETERANS INSURANCE FUND: This program finances claim payments on non-participating policies issued to service-disabled veterans who served in the Armed Forces after April 25, 1951. The program provides insurance coverage for service-disabled veterans at standard rates. Claim payments exceed premium receipts each year. Funds are derived mainly from premiums and payments from the Veterans Insurance and Indemnities appropriation. Public Law 106-419 allowed for term premiums to be frozen, effective November 1, 2000, at the first renewal after the insured reaches age 70 and remain frozen thereafter.

VETERANS REOPENED INSURANCE FUND: Established in 1965 as the financing mechanism for a program authorizing reopening of National Service Life Insurance for one year, for certain disabled veterans of World War II and the Korean conflict. Operations are financed from premiums collected from policyholders and interest on investments.

Trust Funds

NATIONAL SERVICE LIFE INSURANCE FUND: Started in 1940 as the financing mechanism for World War II insurance. Closed to new issues in 1951. Income is derived from premiums, interest on investments, and transfers from Veterans Insurance and Indemnities appropriation.

UNITED STATES GOVERNMENT LIFE INSURANCE FUND: Started in 1919 as the financing mechanism for converted insurance issued under the War Risk Insurance Act of 1914, as amended. Closed to new issues April 1951. Income is derived from interest on investments and transfers from Veterans Insurance and Indemnities appropriation.

VETERANS SPECIAL LIFE INSURANCE FUND: Finances the payment of claims for the insurance program authorized for insurable veterans who served after April 1951 and before January 1, 1957. Income is derived mainly from premiums and interest on investments.

BURIAL BUSINESS LINE: This appropriation provides burial benefits to veterans and their survivors and funding for the administration of all functions associated with the National Cemetery Administration. Provides, upon request, for the interment in any national cemetery with available grave space the remains of eligible deceased service persons and discharged veterans (together with their spouses and certain dependents). The new Burial business line includes the consolidation of five appropriations. The six appropriations are: the burial portion of the Compensation and Pensions account (mandatory), the National Cemetery Administration (discretionary), the burial administrative portion of the General Operating Expenses account (discretionary), a portion of the Major Construction (discretionary), a portion of the Minor Construction (discretionary), and the Grants for the Construction of State Veterans Cemeteries (discretionary). To facilitate account restructuring and consolidation, this account reflects budget information for the National Cemetery Gift Fund in the President's budget.

GRANTS FOR THE CONSTRUCTION OF STATE VETERANS CEMETERIES: Grants to aid States in establishing, expanding or improving State veterans' cemeteries. A grant can be up to 100 percent of the total value of the land and the cost of improvement. Federal funding for the cost of initial equipment when the cemetery is established is also permitted. The States remain responsible for providing the land and paying for all costs related to the operation and maintenance of the state cemeteries, including the cost for subsequent equipment purchases.

GENERAL ADMINISTRATION: This account provides for the Department's top management and administrative support, including data processing, fiscal, personnel and legal services. Operating expenses for the General Counsel's portion of credit reform will be appropriated in the new Housing Business line and be treated as a reimbursement to this account. Under the new account structure, the General Administration appropriation will request its portion of major and minor construction funding.

OFFICE OF THE INSPECTOR GENERAL: Responsible for the audit, investigation, and inspection of all Department of Veterans Affairs programs and operations. Under the new account structure, the Office of Inspector General appropriation includes a portion of Minor Construction.

Other Revolving Funds

MEDICAL CENTER RESEARCH ORGANIZATIONS: Authorized in 1988 to provide a mechanism whereby non-VA funds may be received and administered to perform research by a nonprofit corporation at any VA medical center.

CANTEEN SERVICE REVOLVING FUND: This fund finances the operation of canteens at all medical facilities. These activities are under the management of the Veterans Canteen Service, established by Congress in 1946. Income from sales makes this a self-sustaining activity.

PERSHING HALL REVOLVING FUND: Established by Public Law 102-86 for the operation and maintenance of Pershing Hall, an asset of the United States located in Paris, France. Receipts generated by the operation of Pershing Hall are also deposited in the revolving fund. To facilitate account restructuring and consolidation, this account reflects budget information for the Nursing Home Revolving Fund and the Grants for the Republic of the Philippines in the President's budget.

Other Intragovernmental Funds

SUPPLY REVOLVING FUND: Established in 1953, the Supply Fund is responsible for the operation and maintenance of a supply system for VA. Functioning as an intragovernmental fund, without fiscal year limitation, it seeks to assure the most timely, cost-effective acquisition of goods and services for VA programs. As a self-sustaining fund, the majority of its operating expenses are recovered through a mark-up on goods sold.

FRANCHISE FUND: VA was chosen as a pilot Franchise Fund agency under Public Law 103-356, the Government Management Reform Act of 1994. The pilot commenced in 1997, funded under VA's General operating expenses appropriation.

VA's Franchise Fund is a revolving fund used to supply common administrative services on the basis of services supplied.

Other Trust Funds

GENERAL POST FUND: This trust fund consists of gifts, bequests, and proceeds from the sale of property left in the care of VA facilities by former beneficiaries or the general public, patients' fund balances and proceeds from the sale of effects of beneficiaries who die leaving no heirs or without having otherwise disposed of their estates. Such funds are used to promote the comfort and welfare of veterans in hospitals and homes where no general appropriation is available for this purpose. In addition, donations from pharmaceutical companies, non-profit corporations, and individuals to support VA medical research are deposited in this fund.

NATIONAL CEMETERY GIFT FUND: Consists of gifts and bequests which are made for the purpose of beautifying national cemeteries or are made for the purpose of the operation, maintenance, or improvement of the National Memorial Cemetery of Arizona. The activity in this account has been merged with the National Cemetery Administration in the President's budget.